



AUDITOR - GENERAL  
SOUTH AFRICA

*Auditing to build public confidence*

# **Report of the auditor-general to the North West provincial legislature and the council on the Kagisano-Molopo Local Municipality**

## **Report on the financial statements**

### **Introduction**

1. I have audited the financial statements of the Kagisano-Molopo Local Municipality set out on pages XX to XX, which comprise the statement of financial position as at 30 June 2015, the statement of financial performance, statement of changes in net assets, cash flow statement and statement of actual versus budget (revenue and expenditure) for the year then ended, as well as the notes, comprising a summary of significant accounting policies and other explanatory information.

### **Accounting officer's responsibility for the financial statements**

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with the South African Standards of Generally Recognised Accounting Practice (SA standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2014 (Act No. 10 of 2014) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor-general's responsibility**

3. My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with International Standards on Auditing. Those standards require that I comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.



5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.

## **Basis for qualified opinion**

### **Irregular expenditure**

6. The municipality did not disclose all irregular expenditure in note 28.2 to the financial statements as required by section 125(2)(d)(i) of the MFMA. The municipality made payments in contravention of the supply chain management requirements which were not included the irregular expenditure disclosed for the current year and prior year. As the municipality did not quantify the full extent of the irregular expenditure, it was impracticable to determine the resultant understatement of irregular expenditure of R113 286 183 (2014: R87 866 596) as disclosed in note 28.2 to the financial statement.

### **Qualified opinion**

7. In my opinion, except for the effects of the matter described in the basis for qualified opinion paragraph, the financial statements present fairly, in all material respects, the financial position of the Kagisano-Molopo Local Municipality as at 30 June 2015 and its financial performance and cash flows for the year then ended, in accordance with SA standards of GRAP and the requirements of the MFMA and the DoRA.

### **Emphasis of matters**

8. I draw attention to the matters below. My opinion is not modified in respect of these matters.

### **Unauthorised and fruitless and wasteful expenditure**

9. As disclosed in note 28.3 to the financial statements, unauthorised expenditure of R23 403 791 was incurred in the current year and the unauthorised expenditure in respect of prior years of R37 689 902 had not yet been dealt with in accordance with section 32 of the MFMA.
10. As disclosed in note 28.1 to the financial statements, fruitless and wasteful expenditure of R283 818 was incurred in the current year and fruitless and wasteful expenditure from prior years of R1 511 343 had not yet been dealt with in accordance with section 32 of the MFMA.

### **Additional matters**

11. I draw attention to the matters below. My opinion is not modified in respect of these matters.

### **Unaudited disclosure notes**

12. In terms of section 125(2)(e) of the MFMA the municipality is required to disclose particulars of non-compliance with the MFMA. This disclosure requirement did not form part of the audit of the financial statements and accordingly I do not express an opinion thereon.

### **Unaudited supplementary schedules**

13. The supplementary information set out on pages XX to XX does not form part of the financial statements and is presented as additional information. I have not audited these schedules and accordingly I do not express an opinion thereon.



## Report on other legal and regulatory requirements

14. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report findings on the reported performance information against predetermined objectives for selected development priorities presented in the annual performance report, compliance with legislation and internal control. The objective of my tests was to identify reportable findings as described under each subheading but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.

### **Predetermined objectives**

15. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the following selected development priorities presented in the annual performance report of the municipality for the year ended 30 June 2015:
- Key performance area: Basic service delivery and infrastructure development on pages x to x
  - Key performance area: Local economic development and community services on pages x to x
16. I evaluated the reported performance information against the overall criteria of usefulness and reliability.
17. I evaluated the usefulness of the reported performance information to determine whether it was presented in accordance with the National Treasury's annual reporting principles and whether the reported performance was consistent with the planned development priorities. I further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's Framework for managing programme performance information (FMPPI).
18. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
19. I did not identify any material findings on the usefulness and reliability of the reported performance information on any of the selected development priorities of the municipality.

### **Additional matter**

20. I draw attention to the following matter:

### **Achievement of planned targets**

21. Refer to the annual performance report on pages XX to XX and XX to XX for information on the achievement of the planned targets for the year.

### **Adjustment of material misstatement**

22. I identified a material misstatement in the annual performance report submitted for auditing on the reported performance information for key performance indicator: Local economic development and community services. As management subsequently corrected the misstatement, I did not identify any material findings on the usefulness and reliability of the reported performance information.

### **Compliance with legislation**

23. I performed procedures to obtain evidence that the municipality had complied with applicable



legislation regarding financial matters, financial management and other related matters. My findings on material compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA, are as follows:

## **Annual financial statements, performance and annual reports**

24. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements of property, plant and equipment, depreciation, payables, the cash-flow statement and numerous disclosure notes including irregular, unauthorised, fruitless and wasteful expenditure and commitments identified by the auditors in the submitted financial statements were subsequently corrected, but the uncorrected material misstatements and supporting records that could not be provided resulted in the financial statements receiving a qualified audit opinion.

## **Audit committee**

25. The audit committee did not submit, at least twice during the financial year, an audit report on the review of the performance management system to the council, as required by regulation 14(4)(a)(iii) of the Municipal planning and performance management regulations.

## **Human resource management**

26. The municipality did not submit a report on compliance with prescribed competency levels to the National Treasury and relevant provincial treasury as required by regulation 14(2)(a) of the Municipal Regulations on Minimum Competency Levels.

## **Procurement and contract management**

27. Goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations as required by SCM regulations 17(a) and (c).
28. Goods and services of a transaction value above R200 000 were procured without inviting competitive bids, as required by SCM regulation 19(a).
29. Contracts were awarded to bidders based on preference points that were not allocated and calculated in accordance with the requirements of the Preferential Procurement Policy Framework Act and its regulations.
30. Contracts were extended and modified without tabling the reasons for the proposed amendment in the council of the municipality, as required by section 116(3) of the MFMA.

## **Revenue management**

31. A credit control and debt collection policy was not maintained as required by section 96(b) of the Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA) and section 62(1)(f)(iii) of MFMA.
32. Interest was not charged on all accounts in arrears, as required by section 64(2)(g) of the MFMA.

## **Expenditure management**

33. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.
34. Reasonable steps were not taken to prevent unauthorised expenditure, irregular expenditure and fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA.



## **Assets management**

35. An effective system of internal control for assets was not in place, as required by section 63(2)(c) of the MFMA.

## **Consequence management**

36. Unauthorised, irregular and fruitless and wasteful expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(a)(ii) of the MFMA.

## **Environmental management**

37. The municipality did not exercise its legislative and executive authority as required by section 11(3)(l) and (m) of the MSA by managing, monitoring and enforcing environmental related bylaws to promote a safe and healthy environment.
38. The municipality operated its waste disposal sites facilities without a license in contravention of section 20(b) of the National Environmental Management Waste Act, 2008 (Act No. 59 of 2008) (NEMWA), section 24(2)(a) of the National Environmental Management Act, 1998 (Act No. 107 of 1998) (NEMA).
39. The municipality's waste management and disposal activities contravened or failed to comply with the requirements of section 28(1) of the NEMA, section 19 of the NWA and sections 16(1)(c) and (d) and 26(1)(b) of the NEMWA.

## **Internal control**

40. I considered internal control relevant to my audit of the financial statements, the annual performance report and compliance with legislation. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for qualified opinion, the findings on the annual performance report and the findings on compliance with legislation included in this report.

## **Leadership**

41. Adequate oversight responsibility regarding financial and performance reporting and compliance and related internal controls has not been exercised resulting in material misstatements in the financial statements. Policies and procedures have not been adequately implemented and communicated to staff over supply chain management principles. Furthermore, sufficiently skilled resources are not in place as various key positions such as chief financial officer is still being filled by an acting official.

## **Financial and performance management**

42. The municipality did not implement a proper record keeping system to ensure that complete, relevant and accurate information is accessible and available to support the preparation and presentation of financial statements, performance reporting and compliance with laws and regulations. The municipality failed through the review and reconciliation to address material errors within the financial statements, leading to numerous audit adjustments made, to avoid additional qualifications. Furthermore, the municipality's lack of control over supply chain management resulted that irregular expenditure was understated for the year. Management is encouraged to implement proper controls over supply chain management as a matter of urgency.

## Governance

43. The audit committee did not comply with the requirements to ensure that the review of the performance management system are performed and report to council. The audit committee failed to execute their responsibility in terms of their mandate.

Rustenburg

30 November 2014



AUDITOR - GENERAL  
SOUTH AFRICA

*Auditing to build public confidence*